

Testimony
Submitted to the
Insurance Committee
February 16, 2022

Request: Revise the Captive Insurance Act (Sec 38a-91bb) to exempt this self-insured group consisting of tax exempt municipalities and school districts from the CT premium tax, a tax which is counter to its public benefit intent.

Good morning esteemed members of the Appropriations Committee.

My name is Vincent Masciana, and I am the President of CT PRIME (Program of Regional Insurance for Municipalities and Education). I am also the Chief Operating Officer for the Cheshire Public Schools.

CT PRIME provides member CT municipalities and school districts the financial benefits of self-insurance, a cooperative platform to develop and implement improved health benefit and health care management programs for the benefit of public sector employees, and member owned and operated health benefit stop loss coverage to lower healthcare costs. CT PRIME's programs are open to all municipalities in the State; the present members include Cheshire, CREC, Glastonbury, Granby, Manchester, Suffield, Wethersfield, Windsor and Windsor Locks.

CT towns and school districts that choose to embrace the benefits of group stop loss coverage for self-insured employee health benefits do so using CT's Captive Insurance Act (Sec 38a-91bb). CT PRIME is formed as a captive because the captive structure allows for the pooling of risk across multiple entities that are not engaging in the business of commercial insurance.

The other statute available to municipalities in CT does not achieve this purpose: CGS 113a – Municipal Risk Management Pools Section 7-479a – allows for risk pooling for other types of coverage while exempting them from any premium tax but does not mention health benefits. Notably, the Connecticut Interlocal Risk Management Agency, or CIRMA, formed under this statute, has saved member municipalities millions of dollars over the past 40+ years.

CT PRIME, formed in 2015, was encouraged by the CT Department of Insurance Captive Division to utilize the (relatively new at the time) captive statute, and was assured that, as a public entity-owned organization serving only other tax-exempt organization, captive premium tax would not be owed. Several years later, the CT Department of Revenue assessed CT PRIME premium tax, which has now been paid, under protest.

CT PRIME is the only such program currently in existence, formed as a non-profit, tax-exempt Association Group Captive for the exclusive use of its CT public sector owners.

The CT captive act, administered by the CT Insurance Department, calls for the collection of premium tax by the CT Department of Revenue from taxable captives formed under CT's jurisdiction, but failed to explicitly provide an exemption for non-taxable groups, such as CT PRIME. The CT Department of Revenue has asserted that, absent such explicit provision in the act, it has no choice but to tax these municipalities, through their membership in CT Prime.

We are asking the State to revise the Captive Insurance Act to exempt this self-insured group from CT premium tax, a tax which is counter to its public benefit intent. We are recommending this language:

Section __. Section 38a-91nn of the general statutes is amended by the addition of subsection (i)(Effective from passage):

(i) A captive insurance company domiciled in this state and incorporated as a nonstock corporation for the purpose of providing insurance to municipalities, regional educational service centers, school districts and other political subdivisions of this state, and whose members are limited to those municipalities, regional educational service centers, school districts and other political subdivisions of this state that purchase insurance from said captive insurance company, shall be exempt from any tax imposed under this section and Chapter 207 from the date of incorporation. Subsection (g) of this section shall apply to said captive insurance company, notwithstanding the exemption provided herein.

This amended language to the CT Captive Law clarifies that a tax-exempt municipal owned group captive, formed for the exclusive benefit of CT municipalities, school districts, etc. is exempt from paying premium tax to the State of Connecticut. Consistent with previous legislation, including Sec. 7-479b through which CT municipalities can group self-insure property and casualty risks (as stated above) and Sec. 38a-91vv through which the state created a captive to self-insure eligible crumbling foundations, this amendment removes the application of a state tax directly against a facility that is, for all intents and purposes, a non-taxable entity.

While the tax – estimated at \$7,500 (the minimum charge) in 2019 but closer to \$40,000 in previous years - is relatively immaterial to the State, it could become increasingly material to CT PRIME's work to save municipalities money and to grow.

CT PRIME is formed as a captive in order to legally pool self-insured risk. We are owned and operated by the public sector for the public sector. Public sector captives should not be subject to for premium tax.

Thank you for your consideration.